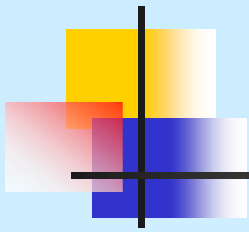




How to Survive A Grant Audit

Marty Rubio, CPA
California Department of Finance
Office of State Audits and Evaluations

December 6, 2002



Agenda

1. **What is a Grant Audit?**
2. **Audit Selection?**
3. **How to Prepare for an Audit**
4. **Top 5 Audit Findings**
5. **Question and Answer**



What is a Grant Audit?



What Is A Grant Audit?

- A. An **independent review** of grantee and contractor records.
- B. Verification of **financial record accuracy**.
- C. Confirmation of **compliance** with contract requirements.
- D. Common **torture device** used by State agencies.



Correct Answers: A, B, C

- A. Independent review** of grantee and contractor's records.
- B. Verification** of financial record accuracy.
- C. Confirmation of compliance** with contract requirements.



Audit Selection

- Random selection Process
 - ✓ Grant Award
 - ✓ Previous audit



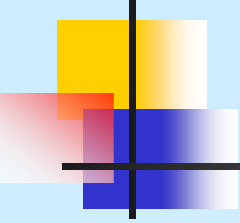
How long will the audit take?

The
Long Audit
versus the
Short Audit



How do I prepare for the short audit?

1. **Day 1 - Know what's required**
2. **Organize supporting documentation**



Day 1 - Know what's required



Read Grant Agreement

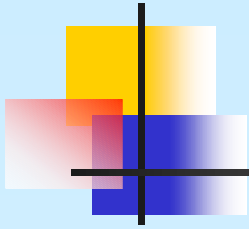
- **Exhibit A Terms and Conditions**
- **Exhibit B Procedures and Requirements**



Before the Auditor Arrives

Engagement Letter

- Including Information Request
- Verify and ensure records are available



Organize Supporting Documentation



Maintenance of Files

HOW?

- ✓ Simple organize manner
- ✓ File documents by grant
- ✓ Document paper trail
- ✓ Central location for grant files

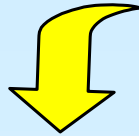
WHY?

- ✓ Grantee required to maintain supporting documentation for claimed expenses
- ✓ Allows others to follow the system
 - AUDIT TRAIL

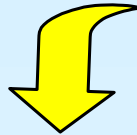
What is an audit trail?



GRANT PAYMENT REQUEST/INVOICE



ACCOUNTING RECORDS



SUPPORTING DOCUMENTATION



Grant Payment Request

- **Form CIWMB 87**
- **Also referred to as the Grantee invoice**
- **Form still required for Funds Advanced**



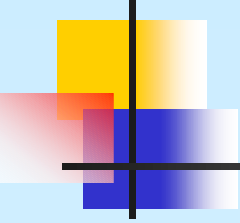
Accounting Records

- ✓ **General Ledger**
- ✓ **Payroll Journal**
- ✓ **Cash Receipts Ledger**
- ✓ **Cash Disbursement Ledger**
- ✓ **Manually Prepared Spreadsheets**



Supporting Documentation

- ✓ **Timesheets detailing tasks and hours**
- ✓ **Cost Allocation Plan**
- ✓ **Vendor Invoices**
- ✓ **Cancelled checks or warrants**
- ✓ **Check Register**
- ✓ **Travel Logs**
- ✓ **Advertisements/promotional material**
- ✓ **Contracts including amendments**
- ✓ **Progress reports/final report**
- ✓ **Correspondence between Grantee and Board**



Adequate supporting documentation

- **Written**
- **Source**
- **Basis/Value**
- **Date**
- **Ties back to the Grant Payment Request/Invoice**



Recap – audit trail

- ✓ **Support amounts on the Grant Payment Request/Invoice**
- ✓ **Develop a method beginning with invoice #1 and be consistent**



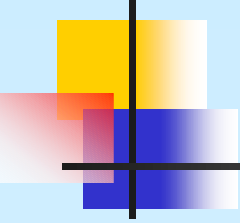
While the auditor is there:

- Entrance conference
- Interviews and internal control questionnaire
- Requests for information and supporting documents
- Ongoing communication
- Management Representation Letter
- Exit conference



Auditor's Objectives During the Audit

- Determine if State grant funds were used as intended and specified in the contract
- Determine if the grantee's internal control allows for the accurate and timely development of accounting data
- Verify compliance with applicable laws, regulations, and contract requirements



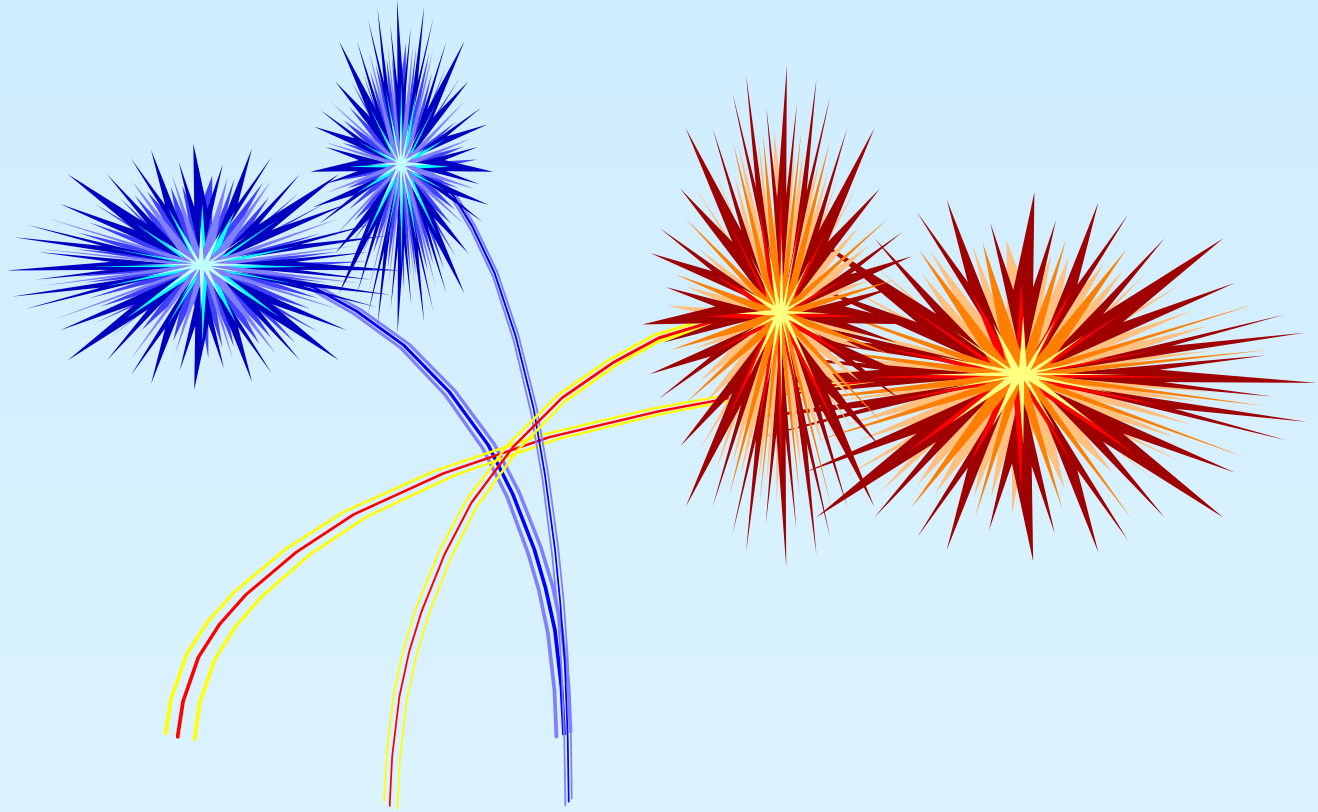
Internal Controls/ Accounting Systems

Why?

- Ensure State assets are safeguarded
- Ensure accounting data is developed accurately and timely
- Ensure compliance with grant procedures and requirements
- Ensure consistency



After the Auditor Leaves





After the Auditor Leaves:

- **Prepare Written Report based on auditor working papers**
- **Report issued – Draft or Final**
- **Board and/or Grantee responds**
- **Issue a final report including the response(s)**
- **Board and Grantee work together to implement corrective action**



Top 5 Audit Findings



...and how
to avoid
them!



#5

Late Submittal of

- **Progress Reports**
- **Final Report**



How to Avoid It

- ④ **Read the Grant Agreement**
- ④ **Track the date requirements**
- ④ **Comply with the Grant Agreement**



#4

**Promotional Materials Not
Approved or Retained**



How to Avoid It

- a. Obtain prior approval**
- b. Document approval in files**
- c. Maintain revised materials and/or final copies**
- d. If verbal authorization granted, follow-up in writing**

Also applies to subcontractors

#3



Ineligible Expenditures Claimed

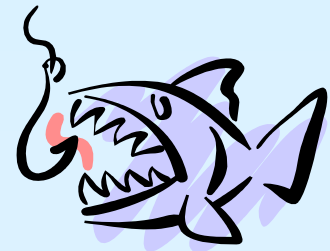


How to Avoid It

- **Review Procedures and Requirements and become familiar with the eligible and ineligible expenses**
- **Ensure costs incurred or initiated within the grant term**
- **Contact Board grant manager for clarification of allowable expenditures**

Monitor your subcontractor before and during the contract

The Grantee is on the Hook here!





#2

Expenditures Improperly Claimed - Personnel and Indirect/Overhead Costs



How to Avoid It

Personnel Expenditures

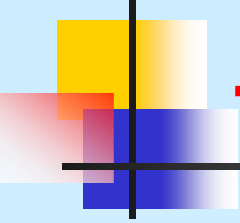
- **Complete Personnel Expenditure Summary**
- **Maintain Official Timesheets**
- **Timesheet Allocation – Actual hours worked**
- **Fringe Benefits rates or actual documented**



How to Avoid It

Overhead Expenditures/Indirect Costs

- Maintain supporting documentation
- Maintain or document Cost Allocation Plan
- Clarify purpose of expenditures – do they benefit the grant



#1

**Lack of Supporting Documentation
or Inadequate Records**





How to Avoid It

- **Establish and maintain an official project file**
- **Maintain supporting documentation for each Grant Payment Request**



Record Retention

- Be aware of record retention requirements

The procedures and requirements state:

“The grantee agrees to maintain records for possible audit for a minimum of three (3) years after the final payment, unless a longer period of record retention is stipulated, or until completion of any action and resolution or all issues which may arise as a result of any litigation, dispute or audit, whichever is later.”



Final Points

The bad news is:

“You will be audited”

The good news is:

**“You will be audited” and the Board
wants you to do well in that audit!**

You know what's required

You know how to prepare